

TRI-COUNTY COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Tri-County Community School District in Thornburg, Iowa.

The District's revenues totaled \$3,776,931 for the year ended June 30, 2006, an increase of 3.36 percent from the prior year. Revenues included \$1,523,216 in local tax, charges for service of \$350,879, operating grants, contributions and restricted interest of \$515,062, capital grants, contributions and restricted interest of \$17,837, unrestricted state grants of \$1,275,078, unrestricted interest of \$31,603 and other revenues of \$63,256.

Expenses for District operations totaled \$3,537,135, a decrease of less than 1 percent from the prior year. Expenses included \$1,181,249 in regular instruction, \$491,618 in special instruction and \$340,554 in other instruction.

A copy of the audit report is available for review in the District Secretary's office, the office of the Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14
Governmental Fund Financial Statements:	
Balance Sheet	C 15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 16
Statement of Revenues, Expenditures and Changes in Fund Balances	E 17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 18
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 19
Statement of Revenues, Expenses and Changes in Net Assets	H 20
Statement of Cash Flows	I 21
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Assets and Liabilities	J 22
Notes to Basic Financial Statements	23-33
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual (GAAP Basis) - All Governmental Funds and Proprietary Fund	34
Notes to Required Supplementary Information - Budgetary Reporting	35
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	1 36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2 37
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 38-39
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4 40
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5 41
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	42-43
Schedule of Findings	44-47

Tri-County Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2005 Election)		
Mark McCullough	President	2005
Kelly Tish	Vice President	2005
Lisa Sieren	Board Member	2006
Gary Bates	Board Member	2006
Justin Leer	Board Member	2007

Board of Education

(After September 2005 Election)

Mark McCullough	President	2008
Kelly Tish	Vice President	2008
Lisa Sieren	Board Member	2006
Gary Bates	Board Member	2006
Justin Leer	Board Member	2007

School Officials

Bill Cox	Superintendent	2006
Rebecca Schmidt	District Secretary	2006
Joanne Bair	District Treasurer	2006
Richard Gaumer	District Attorney	2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Tri-County Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Tri-County Community School District, Thornburg, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Tri-County Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2006 on our consideration of Tri-County Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tri-County Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 6, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tri-County Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,823,840 in fiscal year 2005 to \$2,911,323 in fiscal year 2006, while General Fund expenditures decreased from \$2,912,095 in fiscal 2005 to \$2,837,385 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$733,895 in fiscal 2005 to \$807,833 in fiscal 2006, a 10.1% increase from prior year.
- Overall, the District net assets in the governmental activities increased by \$239,743, and the business-type activities increased by \$1,897, respectively.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Tri-County Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Tri-County Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Tri-County Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Tri-County Community School District Annual Financial Report

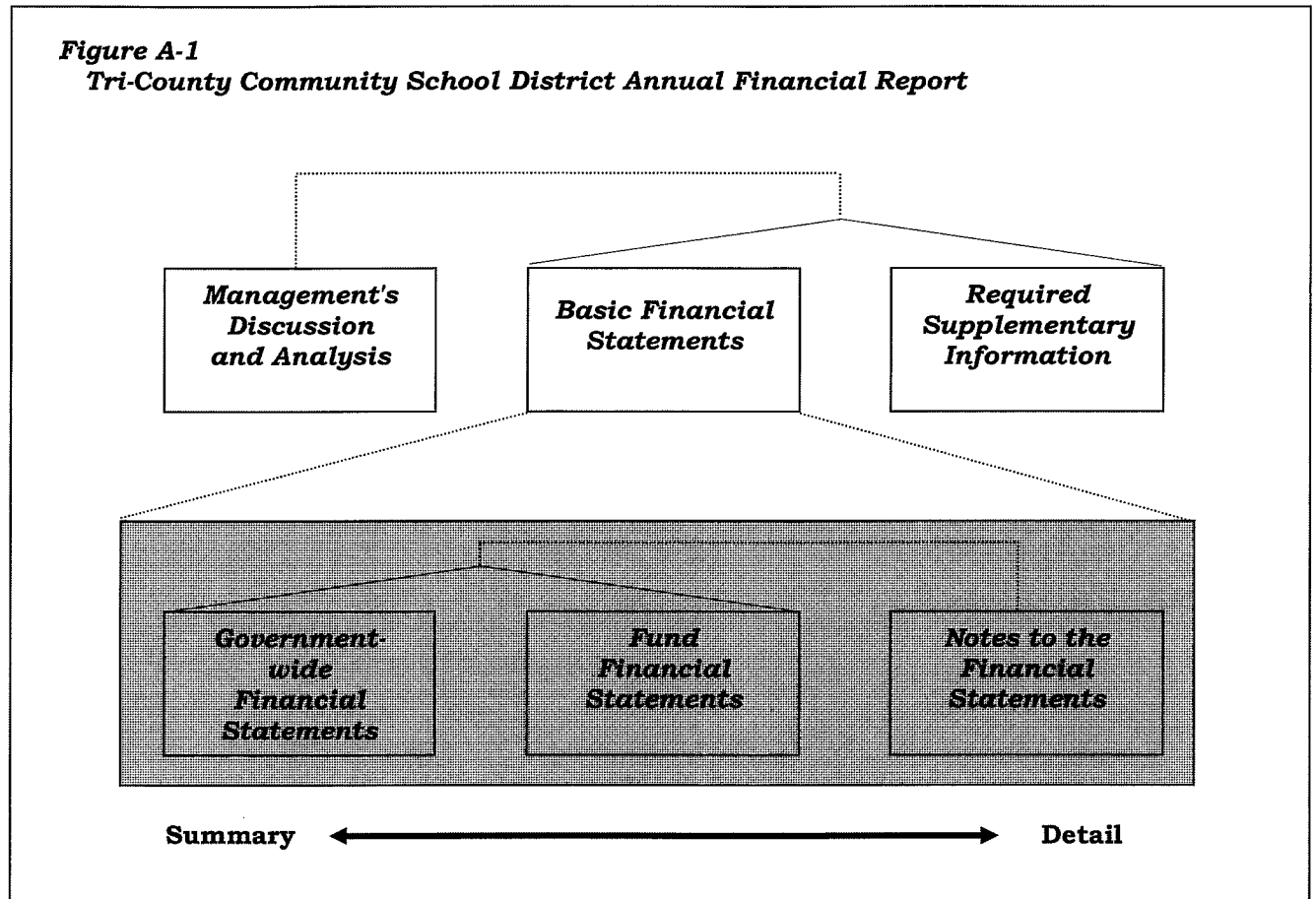


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Child Care Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 2,807,025	2,633,265	7,504	1,898	2,814,529	2,635,163	6.81%
Capital assets	1,285,679	1,404,812	9,630	9,991	1,295,309	1,414,803	-8.45%
Total assets	4,092,704	4,038,077	17,134	11,889	4,109,838	4,049,966	1.48%
Long-term obligations	1,638,855	1,741,130	0	0	1,638,855	1,741,130	-5.87%
Other liabilities	1,393,924	1,476,765	4,726	1,378	1,398,650	1,478,143	-5.38%
Total liabilities	3,032,779	3,217,895	4,726	1,378	3,037,505	3,219,273	-5.65%
Net assets:							
Invested in capital assets, net of related debt	(97,033)	(165,181)	9,630	9,991	(87,403)	(155,190)	43.68%
Restricted	259,843	231,966	0	0	259,843	231,966	12.02%
Unrestricted	897,115	753,397	2,778	520	899,893	753,917	19.36%
Total net assets	\$ 1,059,925	820,182	12,408	10,511	1,072,333	830,693	29.09%

The District's combined net assets increased by over 29% over the prior year. The District's net assets, which are invested in capital assets (e.g., land, buildings and equipment), less the related debt, increased by nearly 44%. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately 12% over the prior year. The increase was primarily a result of the increase in the Physical Plant and Equipment Levy fund balances.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased approximately 19% over the prior year.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 274,064	311,715	76,815	84,738	350,879	396,453	-11.50%
Operating grants and contributions and restricted interest	443,526	368,418	71,536	57,200	515,062	425,618	21.02%
Capital grants and contributions and restricted interest	17,837	0	0	0	17,837	0	100.00%
General revenues:							
Property tax	1,403,152	1,462,474	0	0	1,403,152	1,462,474	-4.06%
Local option sales and service tax	120,064	157,528	0	0	120,064	157,528	0.00%
Unrestricted state grants	1,275,078	1,202,567	0	0	1,275,078	1,202,567	6.03%
Other	94,820	9,324	39	16	94,859	9,340	915.62%
Total revenues	3,628,541	3,512,026	148,390	141,954	3,776,931	3,653,980	3.36%
Program expenses:							
Governmental activities:							
Instructional	2,013,421	2,084,924	0	0	2,013,421	2,084,924	-3.43%
Support services	1,019,555	948,618	0	0	1,019,555	948,618	7.48%
Non-instructional programs	20,641	32,054	148,337	151,746	168,978	183,800	-8.06%
Other expenses	335,181	349,823	0	0	335,181	349,823	-4.19%
Total expenses	3,388,798	3,415,419	148,337	151,746	3,537,135	3,567,165	-0.84%
Excess(deficiency) of revenues over(under) expenses before capital contributions	239,743	96,607	53	(9,792)	239,796	86,815	176.21%
Capital contributions	0	0	1,844	8,521	1,844	8,521	-78.36%
Change in net assets	239,743	96,607	1,897	(1,271)	241,640	95,336	153.46%
Net assets beginning of year	820,182	723,575	10,511	11,782	830,693	735,357	12.96%
Net assets end of year	\$ 1,059,925	820,182	12,408	10,511	1,072,333	830,693	29.09%

In fiscal 2006, property tax and unrestricted state grants account for 73.8% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly 100% of the revenue from business type activities.

The District's total revenues were approximately \$3.78 million of which \$3.63 million was for governmental activities and \$.15 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 3.36% in revenues and a decrease of less than 1% in expenses. The decrease in expenses was related to a decrease in regular instruction costs during the year.

Governmental Activities

Revenues for governmental activities were \$3,628,541 and expenses were \$3,388,798.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,013,421	1,402,568
Support services	1,019,555	1,019,555
Non-instructional	20,641	20,641
Other expenses	335,181	210,607
Totals	<u>\$ 3,388,798</u>	<u>2,653,371</u>

- The cost financed by users of the District's programs was \$274,064.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$461,363.
- The net cost of governmental activities was financed with \$1,403,152 in property tax, \$120,064 in local option sales and services tax, \$1,275,078 in unrestricted state grants and \$31,564 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$148,390 and expenses were \$148,337. The District's business-type activities include the School Nutrition Fund and Child Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Tri-County Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,279,645, above last year's ending fund balances of \$1,046,629.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in state grants during the year, resulted in an increase in revenues. The decrease in expenditures along with the increase in revenues ensured the increase of the Districts financial position.
- With additional revenues in the Capital Projects fund, the fund balance was capable of increasing from \$135,546 to an ending balance of \$176,460.

- The Special Revenue, Management Levy fund balance increased from \$8,506 to \$32,713 due to an increase in the tax levy during the year.
- The Special Revenue, Physical Plant and Equipment Levy fund balance increased \$73,911 to an ending balance of \$155,163. Revenues increased due to the District receiving \$17,837 in a fire safety grant. Expenditures decreased as well during the year, which along with the increase in revenues, allowed the fund balance to increase.

Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$9,899 at June 30, 2005 to \$14,112 at June 30, 2006, representing an increase of 42.6%. The Child Care Fund net assets decreased to a deficit \$1,704 from a positive \$612.

BUDGETARY HIGHLIGHTS

The District's revenues were \$29,639 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$1.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$188,408.

The original cost of the District's capital assets was \$3,923,579. Governmental funds account for \$3,870,071 with the remainder of \$53,508 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than buildings category. The District's improvements other than buildings totaled \$13,777 at June 30, 2005 compared to \$50,938 at June 30, 2006. This increase is due to purchases paid during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 23,205	23,205	0	0	23,205	23,205	0.00%
Buildings	1,078,846	1,192,037	0	0	1,078,846	1,192,037	-10.49%
Improvements other than buildings	50,938	13,777	0	0	50,938	13,777	72.95%
Machinery and equipment	132,690	175,793	9,630	9,991	142,320	185,784	-30.54%
Total	\$ 1,285,679	1,404,812	9,630	9,991	1,295,309	1,414,803	-9.23%

Long-Term Debt

At June 30, 2006, the District had \$1,638,855 in other long-term debt outstanding. This represents a decrease of 6.1% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$1,575,000 at June 30, 2006.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$57,698, which is an increase of 59.2% from the prior year.

The District also had compensated absences of \$6,157 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 1,575,000	1,705,000	-7.6%
Early retirement	57,698	36,248	59.2%
Compensated absences	6,157	4,882	26.1%
Totals	\$ 1,638,855	1,746,130	-6.1%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The voters of the District passed the Local Option Sales and Services in 2004. This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Beckie Schmidt, District Secretary and Business Manager, Tri-County Community School District, 3003 Hwy. 22, P.O. Box 17, Thornburg, Iowa, 50255.

BASIC FINANCIAL STATEMENTS

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 155,541	7,031	162,572
Other	1,179,461	0	1,179,461
Receivables:			
Property tax:			
Delinquent	24,326	0	24,326
Succeeding year	1,190,910	0	1,190,910
Income surtax	138,035	0	138,035
Interfund	3,500	0	3,500
Accrued ISCAP interest(Note 5)	3,152	0	3,152
Due from other governments	112,100	0	112,100
Inventories	0	473	473
Capital assets, net of accumulated depreciation(Note 6)	1,285,679	9,630	1,295,309
Total Assets	4,092,704	17,134	4,109,838
Liabilities			
Interfund	0	3,500	3,500
Accounts payable	25,641	0	25,641
Accrued interest payable	4,579	0	4,579
ISCAP warrants payable (Note 5)	155,000	0	155,000
ISCAP accrued interest payable (Note 5)	2,732	0	2,732
ISCAP premiums payable	968	0	968
Deferred revenue:			
Succeeding year property tax	1,190,910	0	1,190,910
Other	14,094	0	14,094
Unearned revenues	0	1,226	1,226
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds payable	145,000	0	145,000
Early retirement payable	21,799	0	21,799
Compensated absences payable	6,157	0	6,157
Portion due after one year:			
General obligation bonds payable	1,430,000	0	1,430,000
Early retirement payable	35,899	0	35,899
Total Liabilities	3,032,779	4,726	3,037,505
Net Assets			
Investment in capital assets, net of related debt	(97,033)	9,630	(87,403)
Restricted for:			
Salary improvement program	9,048	0	9,048
Early intervention	4,646	0	4,646
Talented and gifted	3,917	0	3,917
Physical plant and equipment levy	155,163	0	155,163
Other special revenue purposes	87,069	0	87,069
Unrestricted	897,115	2,778	899,893
Total Net Assets	\$ 1,059,925	12,408	1,072,333

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,181,249	97,048	318,739	0	(765,462)	0
Special instruction	491,618	0	18,050	0	(473,568)	0
Other instruction	340,554	177,016	0	0	(163,538)	0
	<u>2,013,421</u>	<u>274,064</u>	<u>336,789</u>	<u>0</u>	<u>(1,402,568)</u>	<u>0</u>
Support services:						
Student services	57,696	0	0	0	(57,696)	0
Instructional staff services	65,420	0	0	0	(65,420)	0
Administration services	331,668	0	0	0	(331,668)	0
Operation and maintenance of plant services	322,548	0	0	0	(322,548)	0
Transportation services	242,223	0	0	0	(242,223)	0
	<u>1,019,555</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,019,555)</u>	<u>0</u>
Non-instructional programs:						
Community service operations	20,641	0	0	0	(20,641)	0
Other expenditures:						
Facilities acquisitions	33,594	0	0	17,837	(15,757)	0
Long-term debt interest	59,457	0	0	0	(59,457)	0
AEA flowthrough	106,737	0	106,737	0	0	0
Depreciation(unallocated)*	135,393	0	0	0	(135,393)	0
	<u>335,181</u>	<u>0</u>	<u>106,737</u>	<u>17,837</u>	<u>(210,607)</u>	<u>0</u>
Total governmental activities	3,388,798	274,064	443,526	17,837	(2,653,371)	0
Business-Type activities:						
Non-instructional programs:						
Nutrition services	141,094	71,888	71,536	0	0	2,330
Child care	7,243	4,927	0	0	0	(2,316)
Total business-type activities	<u>148,337</u>	<u>76,815</u>	<u>71,536</u>	<u>0</u>	<u>0</u>	<u>14</u>
Total	<u>\$ 3,537,135</u>	<u>350,879</u>	<u>515,062</u>	<u>17,837</u>	<u>(2,653,371)</u>	<u>14</u>
General Revenues:						
Property tax levied for:						
General purposes					\$ 1,166,833	0
Capital outlay					85,005	0
Debt service					151,314	0
Local option sales and services tax					120,064	0
Unrestricted state grants					1,275,078	0
Unrestricted investment earnings					31,564	39
Other					63,256	0
Total general revenues					<u>2,893,114</u>	<u>39</u>
Excess of revenues over expenditures before capital contributions					239,743	53
Capital contributions					0	1,844
Changes in net assets					239,743	1,897
Net assets beginning of year					820,182	10,511
Net assets end of year					<u>\$ 1,059,925</u>	<u>12,408</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 155,541	0	0	155,541
Other	779,050	111,190	289,221	1,179,461
Receivables:				
Property tax				
Delinquent	18,195	0	6,131	24,326
Succeeding year	925,697	0	265,213	1,190,910
Income surtax	101,226	0	36,809	138,035
Interfund	3,500	0	0	3,500
Accrued ISCAP interest (Note 5)	3,152	0	0	3,152
Due from other governments	46,830	65,270	0	112,100
Total Assets	\$ 2,033,191	176,460	597,374	2,807,025
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 25,641	0	0	25,641
ISCAP warrants payable (Note 5)	155,000	0	0	155,000
ISCAP accrued interest payable (Note 5)	2,732	0	0	2,732
ISCAP premiums payable	968	0	0	968
Deferred revenue:				
Succeeding year property tax	925,697	0	265,213	1,190,910
Income surtax	101,226	0	36,809	138,035
Other	14,094	0	0	14,094
Total liabilities	1,225,358	0	302,022	1,527,380
Fund balances:				
Reserved for:				
Early intervention	4,646	0	0	4,646
Talented and gifted	3,917	0	0	3,917
Salary improvement program	9,048	0	0	9,048
Debt service	0	0	20,407	20,407
Designated for cash flow	350,000	0	0	350,000
Unreserved	440,222	176,460	274,945	891,627
Total fund balances	807,833	176,460	295,352	1,279,645
Total Liabilities and Fund Balances	\$ 2,033,191	176,460	597,374	2,807,025

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 1,279,645
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	1,285,679
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	138,035
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(4,579)
Long-term liabilities, including general obligation bonds payable, compensated absences and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,638,855)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 1,059,925</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,035,867	120,064	349,110	1,505,041
Tuition	97,048	0	0	97,048
Other	105,532	0	166,304	271,836
State sources	1,556,935	45,430	298	1,602,663
Federal sources	115,941	0	17,837	133,778
Total revenues	2,911,323	165,494	533,549	3,610,366
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,146,451	0	13,348	1,159,799
Special instruction	491,618	0	0	491,618
Other instruction	184,220	0	156,334	340,554
	1,822,289	0	169,682	1,991,971
Support services:				
Student services	57,696	0	0	57,696
Instructional staff services	65,420	0	0	65,420
Administration services	334,552	0	875	335,427
Operation and maintenance of plant services	229,482	0	86,584	316,066
Transportation services	200,568	0	0	200,568
	887,718	0	87,459	975,177
Non-instruction:				
Community service operations	20,641	0	0	20,641
Other expenditures:				
Facilities acquisitions	0	69,580	23,377	92,957
Long-term debt:				
Principal	0	0	130,000	130,000
Interest and fiscal charges	0	0	59,867	59,867
AEA flowthrough	106,737	0	0	106,737
	106,737	69,580	213,244	389,561
Total expenditures	2,837,385	69,580	470,385	3,377,350
Excess of revenues over expenditures	73,938	95,914	63,164	233,016
Other financing sources(uses):				
Transfer in	0	0	55,000	55,000
Transfer out	0	(55,000)	0	(55,000)
Total other financing sources(uses)	0	(55,000)	55,000	0
Net change in fund balances	73,938	40,914	118,164	233,016
Fund balance beginning of year	733,895	135,546	177,188	1,046,629
Fund balance end of year	\$ 807,833	176,460	295,352	1,279,645

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 233,016

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of current depreciation and capital outlay expenditures in the current year, are as follows:

Capital outlays	\$ 67,863	
Depreciation expense	<u>(186,996)</u>	(119,133)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 18,175

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ (21,450)	
Compensated absences	<u>(1,275)</u>	(22,725)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 130,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

410

Changes in net assets of governmental activities (page 14) \$ 239,743

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	School Nutrition	Child Care	Total
Assets			
Current assets:			
Cash and pooled investments	\$ 8,735	0	8,735
Inventories	473	0	473
Capital assets, net of accumulated depreciation (Note 5)	9,630	0	9,630
Total Assets	18,838	0	18,838
Liabilities			
Excess of warrants issued over bank balance	0	1,704	1,704
Interfund payable	3,500	0	3,500
Unearned revenue	1,226	0	1,226
Total Liabilities	4,726	1,704	6,430
Net Assets			
Investment in capital assets, net of related debt	9,630	0	9,630
Unrestricted	4,482	(1,704)	2,778
Total Net Assets	\$ 14,112	(1,704)	12,408

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	School Nutrition	Child Care	Total
OPERATING REVENUE:			
Local sources:			
Charges for service	\$ 71,888	4,927	76,815
OPERATING EXPENSES:			
Non-instructional programs:			
Food service operations:			
Salaries	53,341	5,514	58,855
Benefits	12,901	1,729	14,630
Services	792	0	792
Supplies	71,346	0	71,346
Depreciation	1,412	0	1,412
Other	509	0	509
TOTAL OPERATING EXPENSES	140,301	7,243	147,544
OPERATING LOSS	(68,413)	(2,316)	(70,729)
NON-OPERATING REVENUES:			
State sources	1,930	0	1,930
Federal sources	69,606	0	69,606
Interest income	39	0	39
TOTAL NON-OPERATING REVENUES	71,575	0	71,575
Income(loss) before other financing sources(uses)	3,162	(2,316)	846
Other financing sources(uses)			
Loss on disposal of fixed assets	(793)	0	(793)
Capital contributions	1,844	0	1,844
Total other financing sources	1,051	0	1,051
Changes in net assets	4,213	(2,316)	1,897
Net assets beginning of year	9,899	612	10,511
Net assets end of year	\$ 14,112	(1,704)	12,408

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	School Nutrition	Child Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 71,730	0	71,730
Cash received from miscellaneous operating activities	1,384	4,927	6,311
Cash payments to employees for services	(66,242)	(7,243)	(73,485)
Cash payments to suppliers for goods or services	(65,969)	0	(65,969)
Net cash used in operating activities	(59,097)	(2,316)	(61,413)
Cash flows from non-capital financing activities:			
State grants received	1,930	0	1,930
Federal grants received	63,035	0	63,035
Transfer from General Fund	3,500	0	3,500
Net cash provided by non-capital financing activities	68,465	0	68,465
Cash flows from investing activities:			
Interest on investment	39	0	39
Net increase (decrease) in cash and cash equivalents	9,407	(2,316)	7,091
Cash and cash equivalents at beginning of year	(672)	612	(60)
Cash and cash equivalents at end of year	\$ 8,735	(1,704)	7,031
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (68,413)	(2,316)	(70,729)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	6,571	0	6,571
Depreciation	1,412	0	1,412
Decrease in inventories	1,425	0	1,425
Decrease in accounts payable	(1,318)	0	(1,318)
Increase in unearned revenue	1,226	0	1,226
Net cash used in operating activities	\$ (59,097)	(2,316)	(61,413)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and investments	\$ 8,735	(1,704)	7,031

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$6,571.

During the year ended June 30, 2006, the District received capital contributions valued at \$1,844.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Agency</u>
ASSETS	
Cash and pooled investments	<u>\$ 3,271</u>
LIABILITIES	
Due to other groups	<u>\$ 3,271</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Tri-County Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Keswick, Gibson, Thornburg and What Cheer, Iowa, and the predominate agricultural territory in Iowa, Keokuk, Mahaska and Poweshiek County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Tri-County Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Tri-County Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Iowa, Keokuk, Mahaska and Poweshiek County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition Fund and the Child Care Fund. The Nutrition Fund is used to account for the food service operations of the District. The Child Care Fund is used to account for child care services.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and

reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	20 years
Land improvements	20-50 years
Machinery and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue

consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase

agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

Type	Amortized Cost
Diversified portfolio	<u>\$ 406,578</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital projects	<u>\$ 55,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Due From and Due to Other Funds

The detail of interfund receivable and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	School Nutrition	<u>\$ 3,500</u>

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 155,451	3,152	155,000	2,732

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity was noted in the General Fund for the year ended June 30, 2006.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.903%
2005-06B	4.500%	4.772%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 23,205	0	0	23,205
Total capital assets not being depreciated	23,205	0	0	23,205
Capital assets being depreciated:				
Buildings	3,052,040	18,328	0	3,070,368
Land improvements	142,439	41,035	0	183,474
Machinery and equipment	584,524	8,500	0	593,024
Total capital assets being depreciated	3,779,003	67,863	0	3,846,866
Less accumulated depreciation for:				
Buildings	1,860,003	131,519	0	1,991,522
Land improvements	128,662	3,874	0	132,536
Machinery and equipment	408,731	51,603	0	460,334
Total accumulated depreciation	2,397,396	186,996	0	2,584,392
Total capital assets being depreciated, net	1,381,607	(119,133)	0	1,262,474
Governmental activities capital assets, net	\$ 1,404,812	(119,133)	0	1,285,679

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 52,614	1,844	950	53,508
Less accumulated depreciation	42,623	1,412	157	43,878
Business-type activities capital assets, net	\$ 9,991	432	793	9,630

Depreciation expense was charged by the District as follows:

Governmental activities:	
Support services:	
Administration	\$ 3,583
Operation and maintenance of plant	6,365
Transportation	41,655
	51,603
Unallocated depreciation	135,393
Total governmental activities depreciation expense	\$ 186,996
Business-type activities:	
Food services	\$ 1,412

(7) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,705,000	0	130,000	1,575,000	145,000
Early retirement	36,248	26,250	4,800	57,698	21,799
Compensated absences	4,882	6,157	4,882	6,157	6,157
Total	\$ 1,746,130	32,407	139,682	1,638,855	172,956

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed twenty years of continuous service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based on 100% of the difference between the BA Step 0 and the employee's position on the salary scale as of the start of the following school year. In addition, if the employee has more than 25 consecutive years, they will be entitled to an additional \$1,500 for five years. Early retirement benefits paid during the year ended June 30, 2006, totaled \$4,800. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year	Bond Issue of August 1, 2003				Bond Issue of September 1, 1996				Total		
Ending June 30,	Interest Rates	Principal	Interest		Interest Rates	Principal	Interest		Principal	Interest	Total
2007	2.00 %	\$ 55,000	46,182		5.10 %	\$ 80,000	8,760		\$ 135,000	54,942	189,942
2008	2.50	50,000	45,084		5.20	90,000	4,680		140,000	49,764	189,764
2009	2.65	145,000	43,834		-	-	-		145,000	43,834	188,834
2010	3.00	150,000	39,990		-	-	-		150,000	39,990	189,990
2011	3.20	155,000	35,490		-	-	-		155,000	35,490	190,490
2012	3.30	155,000	30,530		-	-	-		155,000	30,530	185,530
2013	3.40	165,000	25,415		-	-	-		165,000	25,415	190,415
2014	3.60	170,000	19,805		-	-	-		170,000	19,805	189,805
2015	3.75	175,000	13,685		-	-	-		175,000	13,685	188,685
2016	3.85	185,000	7,122		-	-	-		185,000	7,122	192,122
Total		<u>\$ 1,405,000</u>	<u>307,137</u>			<u>\$ 170,000</u>	<u>13,440</u>		<u>\$ 1,575,000</u>	<u>320,577</u>	<u>1,895,577</u>

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$96,702, \$99,982 and \$94,508 respectively, equal to the required contributions for each year.

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$106,737 for the year ended June 30, 2006 and is recorded in the General Fund

by making a memorandum adjusting entry to the financial statements.

(11) Deficit Net Assets

The Child Care Fund had deficit unrestricted net assets of \$1,704 at June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 1,873,925	76,854	1,950,779	1,922,634	1,922,634	28,145
State sources	1,602,663	1,930	1,604,593	1,652,761	1,652,761	(48,168)
Federal sources	133,778	69,606	203,384	213,000	213,000	(9,616)
Total revenues	3,610,366	148,390	3,758,756	3,788,395	3,788,395	(29,639)
Expenditures:						
Instruction	1,991,971	0	1,991,971	3,933,142	3,933,142	1,941,171
Support services	975,177	0	975,177	1,098,000	1,098,000	122,823
Non-instructional programs	20,641	147,544	168,185	234,833	234,833	66,648
Other expenditures	389,561	0	389,561	307,978	425,000	35,439
Total expenditures	3,377,350	147,544	3,524,894	5,573,953	5,690,975	2,166,081
Excess(deficiency) of revenues over(under) expenditures	233,016	846	233,862	(1,785,558)	(1,902,580)	2,136,442
Other financing sources, net	0	1,051	1,051	0	0	1,051
Excess(deficiency) of revenues and other financing sources over(under) expenditures	233,016	1,897	234,913	(1,785,558)	(1,902,580)	2,137,493
Balance beginning of year	1,046,629	10,511	1,057,140	1,154,547	1,154,547	(97,407)
Balance end of year	\$ 1,279,645	12,408	1,292,053	(631,011)	(748,033)	2,040,086

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$117,022.

OTHER SUPPLEMENTARY INFORMATION

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2006

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Physical Plant & Equipment Levy	Student Activity	Total Special Revenue	Debt Service	
Assets						
Cash and pooled investments	\$ 30,404	154,312	87,069	271,785	17,436	289,221
Receivables:						
Property tax:						
Current year delinquent	2,309	851	0	3,160	2,971	6,131
Succeeding year	130,000	44,470	0	174,470	90,743	265,213
Income surtax	0	36,809	0	36,809	0	36,809
Total Assets	\$ 162,713	236,442	87,069	486,224	111,150	597,374
Liabilities and Fund Balances						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 130,000	44,470	0	174,470	90,743	265,213
Income surtax	0	36,809	0	36,809	0	36,809
	130,000	81,279	0	211,279	90,743	302,022
Fund balances:						
Reserved:						
Debt service	0	0	0	0	20,407	20,407
Unreserved	32,713	155,163	87,069	274,945	0	274,945
Total fund balances	32,713	155,163	87,069	274,945	20,407	295,352
Total Liabilities and Fund Balances	\$ 162,713	236,442	87,069	486,224	111,150	597,374

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total
	Manage-	Physical		Total		Other
	ment	Plant and	Student	Special	Debt	Nonmajor
	Levy	Equipment	Activity	Revenue	Service	Governmental
		Levy		Funds		Funds
REVENUES:						
Local sources:						
Local tax	\$ 117,637	80,159	0	197,796	151,314	349,110
Other	4,802	839	160,423	166,064	240	166,304
State sources	112	41	0	153	145	298
Federal sources	0	17,837	0	17,837	0	17,837
TOTAL REVENUES	122,551	98,876	160,423	381,850	151,699	533,549
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	11,760	1,588	0	13,348	0	13,348
Other instruction	0	0	156,334	156,334	0	156,334
Support services:						
Administration services	0	0	0	0	875	875
Operation and maintenance						
of plant services	86,584	0	0	86,584	0	86,584
Other expenditures:						
Facilities acquisitions	0	23,377	0	23,377	0	23,377
Long-term debt:						
Principal	0	0	0	0	130,000	130,000
Interest	0	0	0	0	59,867	59,867
TOTAL EXPENDITURES	98,344	24,965	156,334	279,643	190,742	470,385
Excess(deficiency) of revenues						
over(under) expenditures	24,207	73,911	4,089	102,207	(39,043)	63,164
OTHER FINANCING SOURCES:						
Transfer in	0	0	0	0	55,000	55,000
Excess of revenues and other financing						
sources over expenditures	24,207	73,911	4,089	102,207	15,957	118,164
FUND BALANCES BEGINNING OF YEAR	8,506	81,252	82,980	172,738	4,450	177,188
FUND BALANCES END OF YEAR	\$ 32,713	155,163	87,069	274,945	20,407	295,352

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 1,289	367	687	969
Inst/vocal trip	4,420	5,904	3,826	6,498
High school vocal fund	40	253	223	70
High school band	382	393	130	645
Future business leaders of America	132	41	0	173
Welcome baby	66	41	0	107
Athletic resale	(124)	5,621	5,486	11
Athletic non resale	(675)	22,004	22,676	(1,347)
Athletic improvement	403	968	1,371	0
Athletic clinics	0	85	85	0
Athletic gate receipts	11,305	24,789	25,247	10,847
Basketball	17	41	0	58
Football camp	189	0	0	189
P.C. fund	1,288	0	0	1,288
Athletic auction	129	0	0	129
Girls track	0	83	0	83
Cross country	413	0	0	413
Football	0	41	0	41
Baseball	0	531	0	531
Softball	540	83	0	623
Student interest	12,899	1,003	251	13,651
Student petty cash	25	0	0	25
Miscellaneous student resale	286	246	261	271
Home ec resale	149	871	781	239
Pop machine	1,551	0	0	1,551
Character counts	121	1,054	1,054	121
Student council	1,781	1,956	1,965	1,772
TAG	158	129	0	287
School pictures	212	0	128	84
Cheerleading	762	2,642	2,478	926
Dance squad	1,551	3,382	4,201	732
National honor society	269	82	155	196
Spanish club	1,137	0	0	1,137
Padlock resale	648	245	259	634
Stage curtain improvement	132	0	0	132
Athletics candy fundraiser	8,455	5,947	4,138	10,264
JH miscellaneous	1,540	300	171	1,669
Grad class fund	1,899	96	0	1,995
Annual 2006-07	496	0	685	(189)
Class of 2007	1,873	4,867	2,497	4,243
Class of 2008	20	994	0	1,014
Class of 2009	0	839	200	639
Class of 2010	3,767	19,538	23,225	80
School insurance	222	0	0	222
Trojan annual	712	7,073	8,301	(516)
FFA	7,157	21,568	18,068	10,657

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Horticulture	1,327	1,229	1,561	995
Activity tickets	468	0	0	468
Golf	628	0	0	628
Instrument resale	425	188	815	(202)
Vo Ag resale	111	0	0	111
Ind arts resale	0	192	150	42
Shop glasses	51	15	0	66
HS vending	1,823	88	1	1,910
Elementary wrestling	979	1,278	1,261	996
Elementary fund raisers	6,847	21,362	22,093	6,116
Elementary library books	196	38	38	196
Elementary vending machines	612	0	0	612
Elementary school pictures	1,599	183	1	1,781
Elementary book club	186	0	0	186
Athletic uniforms	92	1,773	1,865	0
Total	\$ 82,980	160,423	156,334	87,069

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2006

	Beginning			Ending
	Balance	Increases	Decreases	Balance
Assets:				
Cash and other investments	\$ 2,436	944	109	3,271
Liabilities:				
Due to other groups	\$ 2,436	944	109	3,271

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax		\$ 1,505,041	1,500,142	1,301,036	1,282,717
Tuition		97,048	83,664	82,026	77,185
Other		271,836	237,375	374,256	384,450
State sources		1,602,663	1,464,820	1,389,719	1,682,761
Federal sources		133,778	106,165	146,322	123,855
Total		<u>\$ 3,610,366</u>	<u>3,392,166</u>	<u>3,293,359</u>	<u>3,550,968</u>
Expenditures:					
Instruction:					
Regular instruction		\$ 1,159,799	1,263,162	1,187,384	1,156,560
Special instruction		491,618	411,429	466,193	390,515
Other instruction		340,554	392,457	366,542	353,074
Support services:					
Student services		57,696	55,533	53,985	52,064
Instructional staff services		65,420	25,097	21,535	22,398
Administration services		335,427	380,622	364,691	320,105
Operation and maintenance of plant services		316,066	294,170	271,571	251,794
Transportation services		200,568	228,497	211,904	168,468
Non-instructional programs		20,641	32,054	23,742	16,805
Other expenditures:					
Facilities acquisition		92,957	54,543	56,246	64,222
Long-term debt:					
Principal		130,000	125,000	130,000	95,000
Interest		59,867	65,268	61,134	103,043
AEA flowthrough		106,737	106,686	108,892	118,712
Total		<u>\$ 3,377,350</u>	<u>3,434,518</u>	<u>3,323,819</u>	<u>3,112,760</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Tri-County Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Tri-County Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 6, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri-County Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-County Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Tri-County Community School District and other parties to Tri-County Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Tri-County Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 6, 2006

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The District will review its procedures.

Conclusion - Response accepted.

I-B-06 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - The District will review the procedures that are currently in place and make the necessary changes.

Conclusion - Response accepted.

I-C-06 Interest in Student Activity Fund - We noted during our audit that the District did not record interest in the Student Activity Fund.

Recommendation - Interest should be recorded and allocated out among the Student Activity accounts at year end.

Response - The interest will be allocated out at year end among the various Student Activity accounts.

Conclusion - Response accepted.

I-D-06 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In compliance with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches, and determine that the wage paid is in compliance with minimum wage requirements as well as any overtime issues.

Response - The District will review its procedures and have non-certified coaches keep track of their hours worked

Conclusion - Response accepted.

- I-E-06 Notice of Public Hearing for Public Improvement - The District did not conduct a public hearing on the softball field project required by Chapter 73A.2 of the Code of Iowa.

Recommendation - The District should be aware that projects that are required to be bid and which a public hearing is required, if contested by public, has to be removed at the vendors cost. Vendors should be aware of the need for public hearing if they are working with schools, and would be responsible at their expense for removing the improvement. Before entering into any contract for public improvements where the net cost is \$25,000 or more, the District is required to hold a public hearing.

Response - The District will review its procedures and make the necessary changes.

Conclusion - Response accepted.

- I-F-06 Student Activity Fund - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from. More specifically, there were purchases made for library books, field trips and padlocks.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - The District will review and maintain only accounts related to the cocurricular and extracurricular activities offered.

Conclusion - Response accepted.

TRI-COUNTY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, did not exceed the amount budgeted in the other expenditures functional area, however, expenditures were exceeded before the budget was amended.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The District will amend before exceeding the budget.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - No business transactions between the District and District officials or employees are detailed as follows:

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - The District will publish the minutes in a timely manner in the future.

Conclusion - Response accepted.

- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

- II-J-06 Financial Condition - During our audit we noted that the District had a deficit unrestricted fund balance of \$1,704 in the Child Care Fund and negative account balances within the Student Activity Fund

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - The District will monitor these funds and look for alternatives to eliminate the deficits.

Conclusion - Response accepted.

II-K-06 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The District contacted the banks and is now obtaining the front & back images of the checks.

Conclusion - Response accepted.